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3Q 2022

Interim Management Statement

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30 November 2022

# Q&A Session at the end of the presentation

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Certain statements included in this presentation contain various forward-looking statements that reflect management’s current views with respect to future events and financial and operational performance. The words “believe,” “expect,” “anticipate,” “intend,” “may,” “plan,” “estimate,” “should,” “could,” “aim,” “target,” “might,” or, in each case, their negative, or similar expressions identify certain of these forward-looking statements. Others can be identified from the context in which the statements are made. Although we believe that the expectations reflected in such forward-looking statements are reasonable, these forward-looking statements are based on a number of assumptions and forecasts that, by their nature, involve risk and uncertainty. Various factors could cause our actual results to differ materially from those projected in a forward-looking statement or affect the extent to which a particular projection is realized. Factors that could cause these differences include but are not limited to the Company’s ability to operate profitably, maintain its competitive position, to promote and improve its reputation, to successfully operate its strategy and the impact of changes in pricing policies, political and regulatory developments in the markets in which the Company operates, and other risks. The information and opinions contained in this document are provided as at the date of this presentation and are subject to change without notice. No representation or warranty (expressed or implied) is made as to, and no reliance should be placed on, the fairness, accuracy or completeness of the information contained herein. Accordingly, neither the Company nor its subsidiary undertakings or any of such person’s officers or employees accepts any liability whatsoever arising directly or indirectly from the use of this document.

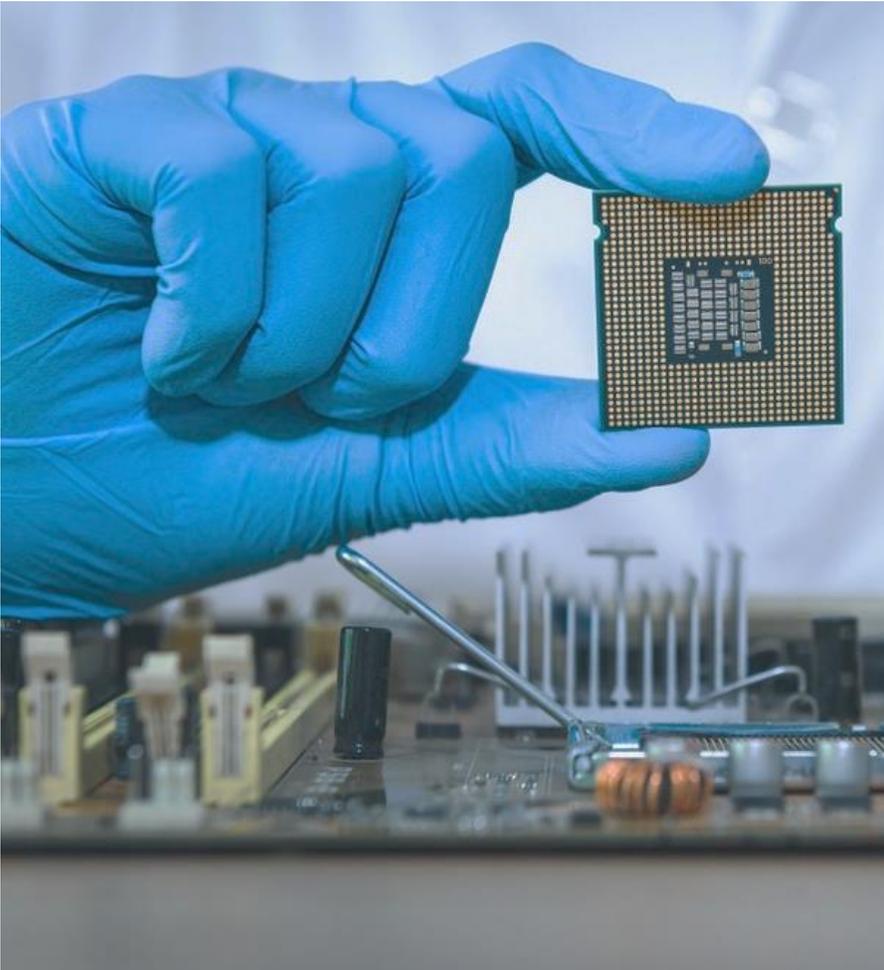
## 3Q 2022 IMS Topics

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- YTD Financial Results Summary
- Strategic Breakthrough & Commercial Success
- Strategic Process Update
- Market Outlook

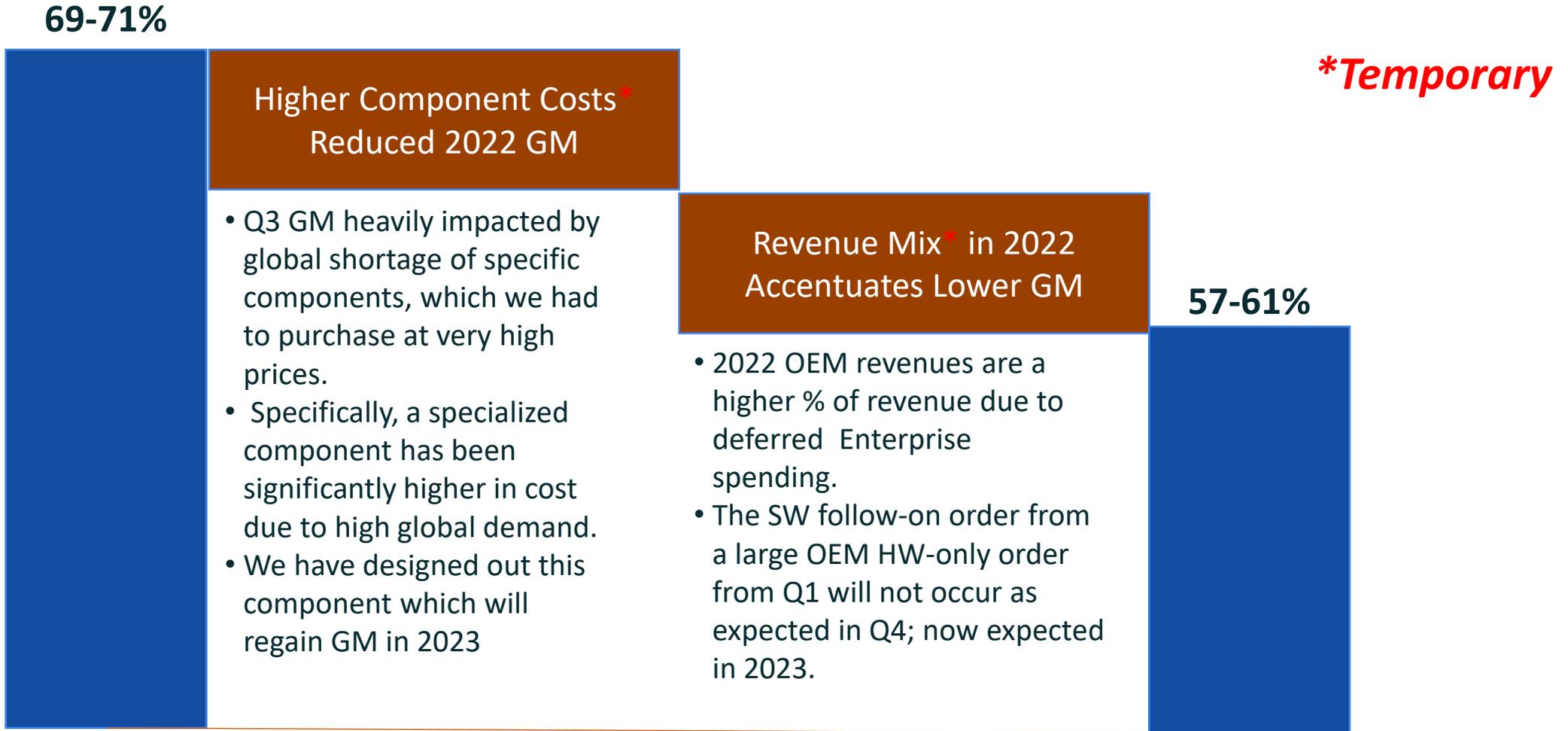
# Q3 2022 Financial Results

# YTD Financial Results Summary



- YTD Revenue decline of 11% in DKK
- YTD Gross Margin is 56%
- YTD Staff costs up 12% YoY
- YTD EBITDAC negative 34.7mDKK – down 46.8mDKK compared to '21
- YTD Net Cash Flow is negative 12.8mDKK
- Cash and cash equivalents of 27.9mDKK end of Q3 22 compared to 40.6mDKK end of Q3'21

# Gross Margin Impacts in 2022 Expected to be Temporary



# Annual Guidance for 2022 Updated

Guidance	Previous	Updated
Revenue	DKK 195-220m	DKK 170-200m
Gross margin	69-71%	57-61%
Staff expenses & Other external costs	DKK 145-155m	DKK 140-150m
Transferred to capitalized development costs	DKK 28-33m	DKK 25-27m
Depreciation, amortization and impairment	DKK 23-28m	DKK 23-28m

## Key Highlights

- Market conditions have affected our 2022 revenue growth as we revise revenue guidance downward by 13%.
- Gross Margins are affected by abnormally higher costs of a specialized component due to the global supply chain shortages, and a shift in revenue mix due to lower revenues from enterprise end-user customers. We see early signs of stabilization for 2023.
- We are managing staffing and other expenses carefully.
- 2023 is expected to grow significantly over 2022.

- Strategic Breakthrough & Commercial Success

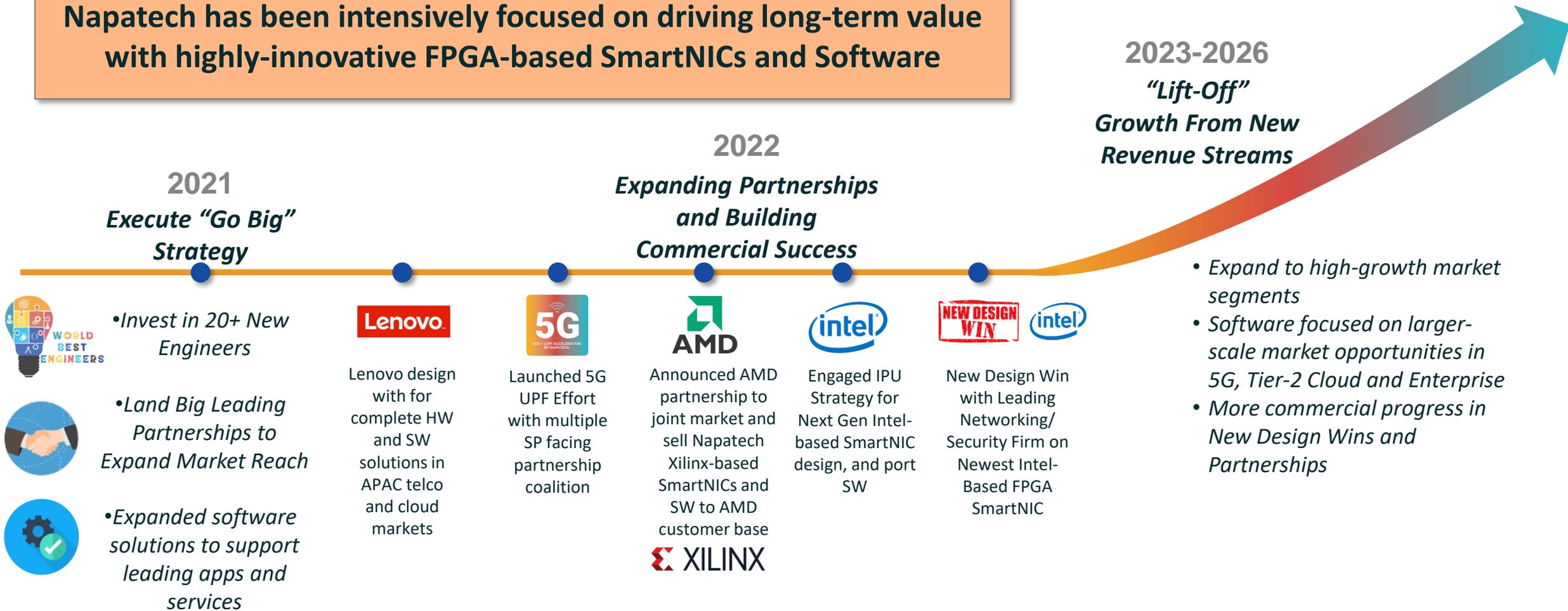
# Napatech Has Been Keenly Focused on Enhancing R&D Over the Last 18 Months to Capture More Growth *Faster*

- We see a large opportunity in fast-growing virtual use-cases targeting modern cloud, mobile/telco, enterprise and edge datacenters
- Napatech's SmartNIC software improves performance by off-loading virtual workloads improving server performance and overall economics
- Napatech increased investments in software development to accelerate feature velocity within this evolving market
- Embarked on hiring +30 full-time R&D and subcontractors through mid-2022
- We estimated Cash flow to be negative in the coming quarters as we accelerated the development
- Investments to position Napatech for new 2022 design wins and revenue expansion for years to come

*The timing of this investment is strategic, and we are going for it*

# Napatech's Never Been in a More Strategically Important Position

**Napatech has been intensively focused on driving long-term value with highly-innovative FPGA-based SmartNICs and Software**



# Lenovo OEM Design Win Partnership Launched to Expand APAC Service Provider Access



Finansavisen buy sign in tip us News Stock market Forum TV Premium Engine Podcast

Market overview Price list Currency Oslo Stock Exchange 983.02 1.15% Brent spot 57.74 2.78% US Dollar 8.60 0.08% EUR 10.38 -0.07% GBP 11.74 -0.04%

## Napatech enters into design agreement with Lenovo

Napatech estimates the revenue potential of the design agreement to exceed \$ 10 million over the life of the product, building customer orders in the second half of 2021.

AGREEMENT: Napatech joins forces with Lenovo to deliver 25 and 100 gigabit Ethernet programmable SmartNICs to data centers.

- Joint Product Development
- Focused on Virtualization Solution
- Delivering improved Data Center performance for 5G telecom and Cloud SP's
- Lenovo branded
- Napatech designed

# The 5G Era is Changing Everything in Telecom Infrastructure

- 5G is a massive business challenge for all telcos
- Major capital investments in new spectrum and infrastructure
- Minimal increase in ARPU, and challenged ROI



- Reducing cost-per-subscriber for infrastructure enables significant improvements in telco ROI for their 5G deployments
- UPF is high leverage because it represents a significant part of the overall workload within the packet core.

*Napatech software investments enable our family of SmartNICs to offload and accelerate User Plan Function in 5G Packet core networks*

# AMD/Xilinx Partnership is Starting to Generate Sales Leads

- Launched September 2022
- Sales and marketing collaboration agreement
- AMD direct & channel sales activated for Napatech solutions
- Targeted accounts in all global geos and customer types
- Early mileposts being hit for engagements and meetings
- Targeting 2H23-2024 design wins and revenue



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**Napatech Extends Collaboration with AMD to Data Center Networking with FPGA-based SmartNIC Solutions**

COPENHAGEN, Denmark – Sept. 1, 2022 – Napatech™ (OSLO: NAPA.OL), the leading provider of programmable Smart Network Interface Cards (SmartNICs) used for Data Processing Unit (DPU) and Infrastructure Processing Unit (IPU) services in telecom, cloud, enterprise, cybersecurity and financial applications worldwide, today announced an extension of its sales and marketing collaboration initiatives with AMD that will make Napatech’s hardware-plus-software SmartNIC solutions available to AMD customers worldwide through both direct engagements and global channel partners.

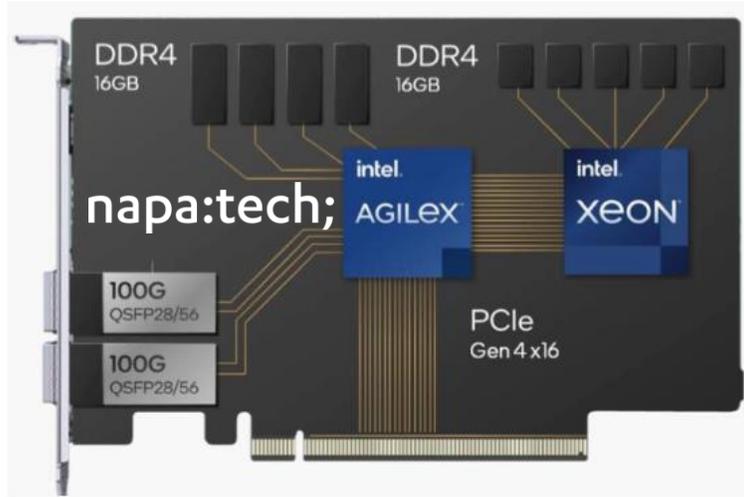
[Click to Tweet:](#) @Napatech and @AMD Extend Collaboration for Data Center Networking with #FPGA-based #SmartNIC Solutions: <https://www.napatech.com/>

OEMs, enterprises and data center operators across a wide range of industries are adopting SmartNIC solutions to achieve levels of performance, security, latency and energy efficiency that are unachievable with servers or appliances equipped with traditional “foundational” NICs. As the leading provider of field programmable gate array (FPGA)-based SmartNICs, Napatech leverages the extensive portfolio of AMD Xilinx FPGAs, in combination with its own commercial-grade software suites, to accelerate and offload a variety of workloads in cybersecurity, financial systems, mobile infrastructure, data centers, network appliances and monitoring solutions.

Many companies that can benefit from Napatech’s SmartNIC solutions are already customers of the extensive AMD processor portfolio, leveraging EPYC™ processors in servers or Ryzen™ processors in workstations. The expanded collaboration between AMD and Napatech is designed to enable AMD experts and channel partners to propose and architect end-to-end solutions for these companies, spanning their network infrastructure as well as their processor subsystem. Fine-tuning the balance of workloads between the processor and the SmartNIC through true system-level design results in optimized performance, system cost and energy efficiency for the target applications.

End-users who adopt Napatech’s SmartNIC solutions benefit from a true “IT” experience, whereby they simply install a card, load a driver, and achieve seamless acceleration of common applications, both commercial and open source, with no need for custom programming at either the application or FPGA level.

# Intel IPU Partnership



- Programmable NICs evolve to include both SmartNICs and IPU
- IPU build upon SmartNICs, adding general purpose CPU cores
- Unlocks new customers, applications and use cases
- Napatech and Intel partner to deliver market-leading IPU design
- Napatech software solutions powers IPU

# Landmark Win On Track for Significant 2023+ Revenue Growth

- Customer: a multi-billion dollar global leader in network and security solutions selling its solutions to the world's largest enterprises, financial institutions, service providers and governments
- Napatech delivering its newest Intel FPGA-based SmartNIC solution
- Potential full-year revenues expected to be around \$10M
- On-track to deliver solution in 1H'23

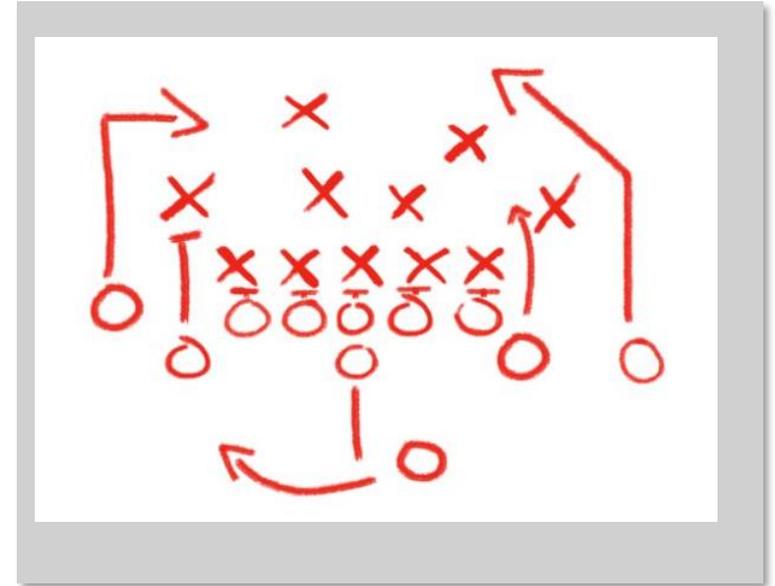


*We will announce more when we are permitted*

- Strategic Process Update

# Strategic Process Update

- Napatech is well positioned amongst others within this market with its FPGA-based SmartNIC HW and SW solution.
- Napatech has had inbound interest from several large players within our market domain.
- Napatech’s Board announced in Q3 that we initiated a strategic review to consider options to capitalize on the large opportunities in front of us.
- Napatech’s Board views that we need to either be a part of a larger company or have even stronger strategic partnerships to secure a quicker ramp of our newest technology and features.
- Napatech has experienced more interest than expected and have several alternatives that the Board is focusing on.
- The alternatives that we are working on will increase the value of the company substantially, but more importantly, will help secure strong commercial success going forward.
- We expect to make progress with this strategic process and will provide more details anytime soon.

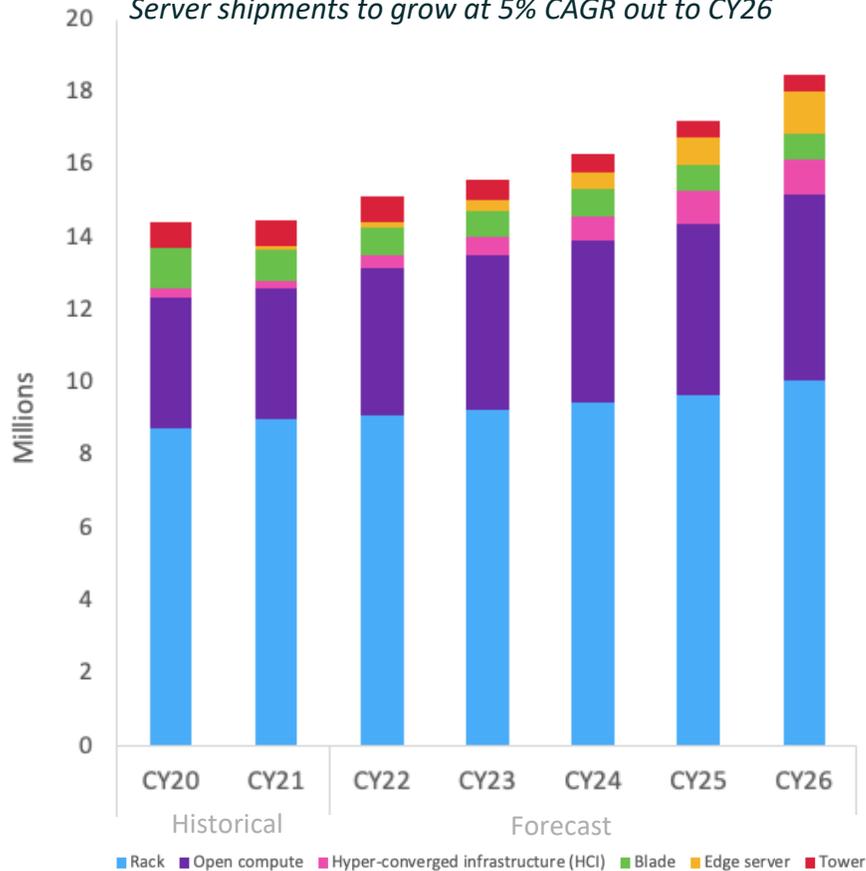


- Market Outlook

# Napatech is Addressing Highest Growth Segment of the Industry of Programmable NICs

## Server shipment forecast

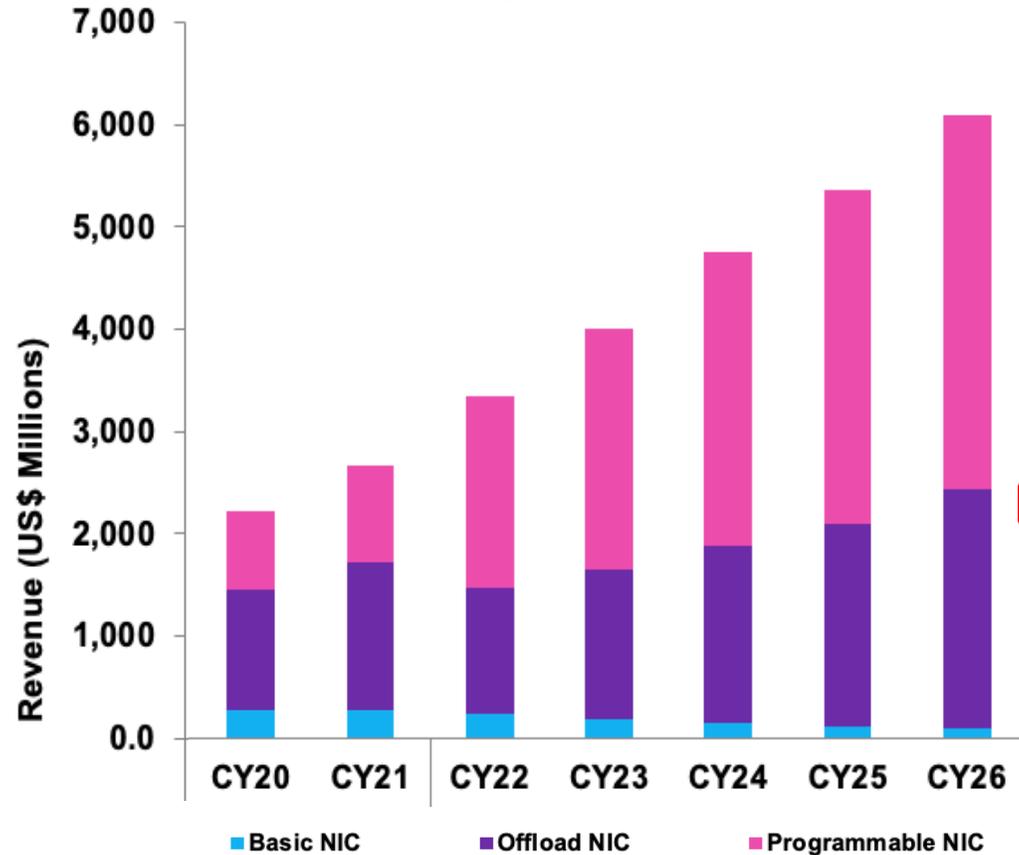
Server shipments to grow at 5% CAGR out to CY26



Source: Omdia 3Q2022

## Ethernet adapter revenue forecast

SmartNICs Revenue to grow at 31% CAGR out to CY26



Source: Omdia 3Q2022

Market Share EoY'21	
SmartNICs - Vendors Only*	Share
Marvell	43.4%
Xilinx	11.3%
Intel	8.7%
Broadcom	7.9%
<b>Napatech</b>	<b>7.3%</b>
Silicom	5.4%
NVIDIA	3.0%
Other	12.8%

\*Excludes MSFT, AMZN

# Industry Insiders Take Notice

## LightReading

### Tiny Napatech starts FPGA assault on Nvidia in 5G core



News Analysis  
IAIN MORRIS,  
International  
Editor

11/2/2022

Field programmable gate arrays, or FPGAs, gained a bad reputation in 2019 when they were identified as a cause of Nokia's 5G woes. Let down by Intel on the supply of 5G chips, the Finnish vendor had fallen back on FPGAs from Xilinx to plug the hole. Alongside rivals using customized silicon, Nokia suddenly had a cost and competitiveness problem. Ever since, it has been working to phase them out.

That product uses FPGAs to run the 5G user plane function (UPF), a part of the 5G packet core responsible for the inspection, forwarding and routing of traffic. In modern-day 5G networks, the UPF can be hosted just about anywhere – in an edge data center, collocated with the radio access network (RAN) or even within a public cloud. But it tends to gobble up server resources. Napatech's solution involves bypassing the server processor and instead running the UPF on a SmartNIC (essentially, a network interface card with added cleverness).

[Light Reading Article Found Here](#)

# Q&A Session at the end of the presentation

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# Consolidated Income Statement Q3 & YTD 2022

DKK'000	Q3		YTD		Q3 Δ	YTD Δ
	2022	2021	2022	2021		
Revenue	36,976	47,247	124,697	140,479	-22%	-11%
Cost of goods sold	(18,730)	(12,699)	(54,858)	(39,808)		
<b>Gross profit</b>	<b>18,246</b>	<b>34,548</b>	<b>69,839</b>	<b>100,671</b>	<b>-47%</b>	<b>-31%</b>
<b>GM%</b>	<b>49.3%</b>	<b>73.1%</b>	<b>56.0%</b>	<b>71.7%</b>		
Other operating income	-	-	-	25		
Staff costs	(24,168)	(21,962)	(80,463)	(71,834)	10%	12%
Other external costs	(6,805)	(6,345)	(24,103)	(16,792)	7%	44%
<b>EBITDAC</b>	<b>(12,727)</b>	<b>6,241</b>	<b>(34,727)</b>	<b>12,070</b>		
Transferred to capitalized development costs	5,748	6,148	18,777	17,754	-7%	6%
<b>EBITDA</b>	<b>(6,979)</b>	<b>12,389</b>	<b>(15,950)</b>	<b>29,824</b>		
Depreciation, amortization and impairment	(7,342)	(5,774)	(19,271)	(15,576)	27%	24%
<b>Operating result (EBIT)</b>	<b>(14,321)</b>	<b>6,615</b>	<b>(35,221)</b>	<b>14,248</b>		
Finance income	2,031	1,444	5,542	5,885		
Finance costs	(390)	(118)	(953)	(470)		
<b>Result before tax</b>	<b>(12,680)</b>	<b>7,941</b>	<b>(30,632)</b>	<b>19,663</b>		
Income tax	9	(374)	(24)	(1,091)		
<b>Result for the period</b>	<b>(12,671)</b>	<b>7,567</b>	<b>(30,656)</b>	<b>18,572</b>		

## Key Highlights

- Revenue in Q3 down 22% compared to Q3'21. Revenue YTD in USD down 21% compared to '21 (down 11% in DKK)
- GM in Q3 49.3% down 23.8 basis points compared to Q3'21. GM YTD 56% down 15.7 basis points compared to '21
- Staff costs in Q3 up 10% compared to Q3'21 and up 12% YTD compared to '21.
- Other external costs in Q3 up 7% compared to Q3'21 and up 44% YTD compared to '21
- Q3 EBITDAC negative DKK 12.7m – down DKK 1xxm compared to Q3'21. YTD EBITDAC negative DKK34.7m – down DKK 46.8m compared to '21.

EBITDAC: Earnings before depreciation, amortization and impairment, and staff cost transferred to development projects

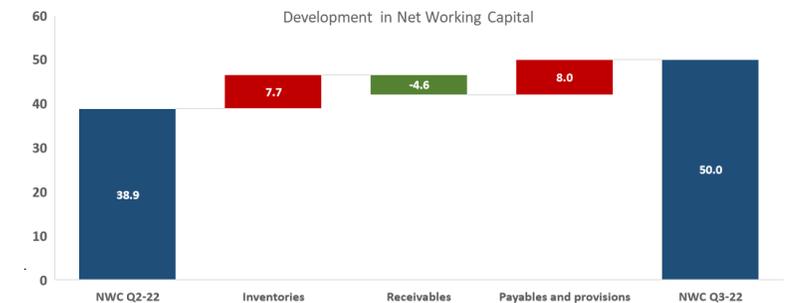
# Consolidated Cash Flow Statement Q3 & YTD 2022

DKK'000	Q3		YTD	
	2022	2021	2022	2021
Earnings before tax (EBT)	(12,680)	7,941	(30,632)	19,663
Adjustments to reconcile profit before tax to net cash flows	7,390	5,390	19,189	12,537
Working capital adjustments	(9,369)	(229)	(538)	(31,161)
Interest, net	(340)	(426)	(836)	(1,350)
Income tax, net	(14,999)	12,683	(12,810)	(292)
<b>Net cash flows from operating activities</b>	<b>(14,999)</b>	<b>12,683</b>	<b>(12,810)</b>	<b>(292)</b>
<b>Net cash used in investing activities</b>	<b>(7,788)</b>	<b>(8,360)</b>	<b>(27,270)</b>	<b>(18,799)</b>
<b>Free cash flow</b>	<b>(22,787)</b>	<b>4,323</b>	<b>(40,080)</b>	<b>(19,091)</b>
<b>Net cash flows used in financing activities</b>	<b>12,082</b>	<b>(3,353)</b>	<b>27,456</b>	<b>(4,636)</b>
<b>Net change in cash and cash equivalents</b>	<b>(10,705)</b>	<b>970</b>	<b>(12,624)</b>	<b>(23,727)</b>
Net foreign exchange difference	1,100	1,282	1,096	1,584
Cash and cash equivalents at the beginning of the period	37,526	38,303	39,449	62,698
<b>Cash and cash equivalents at the end of the period</b>	<b>27,921</b>	<b>40,555</b>	<b>27,921</b>	<b>40,555</b>

	2022	2021
Net working capital	50,045	35,314
- NWC as % of revenue in quarter	135%	75%

## Key Highlights

- Net Cash flow from operating activities in Q3 negative DKK 15m – YTD negative DKK 12.8m
- Net working capital end of Q3 DKK 50.0m ~ 135% of revenue in quarter



- Free cash flow in Q3 negative DKK 22.8m
- Cash and cash equivalents of DKK 27.9m end of Q3 22 compared to DKK 40.6m end of Q3'21

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Thank You